

Message Text

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S E C R E T STATE 311711 TOSEC 340059

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FOLLOWING REPEAT JIDDA 8335 ACTION SECSTATE DTD 28 DEC

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S E C R E T JIDDA 8335

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FOR SECRETARY AND SECRETARY-DESIGNATE FROM AMBASSADOR

E.O. 11652: XGDS-2

TAGS: ETRD, ENRG, PFOR, OPEC, SA, US

SUBJECT: SAUDI POST-DOHA DEVELOPMENTS

BELIEVE FOLLOWING FROM RELIABLE SOURCE MERITS YOUR ATTENTION:

1. SAUDI CONCERN OVER THE EFFECTS OF PRESENT AND POSSIBLE FUTURE
US ANTI-BOYCOTT LEGISLATION HAS TAKEN ON TWO NEW DIMENSIONS SINCE
THE DOHA OPEC MEETINGS AND SAUDI ARABIA'S ACTION TO CREATE A
TWO-TIER OIL PRICING SYSTEM:

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A. CROWN PRINCE FAHD HAS EXPRESSED GRAVE CONCERN THAT
PASSAGE OF NEW ANTI-BOYCOTT LEGISLATION, IF DEBATED AND APPROVED
DURING THE CRITICAL PERIOD WHEN SAUDI ARABIA IS WORKING TO
UNDERMINE THE PRICE STRUCTURE DECREED BY ITS ELEVEN OPEC RIVALS,
WILL SERIOUSLY EMBARRASS SAG IN GENERAL AND CROWN PRINCE FADH

IN PARTICULAR. HE IS UNDER CRITICISM NOT ONLY FROM OTHER OPEC GOVERNMENTS AND OTHER ARABS, BUT FROM A SIGNIFICANT ELEMENT OF THE SAUDI ESTABLISHMENT. WE HAVE BEEN RELIABLY INFORMED, FOR EXAMPLE, THAT MINISTERS MOHAMMAD ABA AL-KHAYL (FINANCE), GHAZI AL-QUSAYBI (INDUSTRIES) AND HISHAM NAZIR (PLANNING) ARE STRONGLY OPPOSED TO FAHD'S DECISION TO USE INCREASED OIL PRODUCTION AS A WEAPON IN SUPPORT OF WHAT THEY SEE AS PRIMARILY A POLITICAL OBJECTIVE--WINNING THE CONFIDENCE AND APPROVAL OF THE CARTER ADMINISTRATION.

B. ON THE PRACTICAL LEVEL, EXISTING ANTI-BOYCOTT LEGISLATION IS VIEWED AS A SIGNIFICANT OBSTACLE TO THE RAPID EXPANSION OF SAUDI ARABIA'S OIL PRODUCTION CAPABILITY. THE IMPORTATION OF LARGE AMOUNTS OF NEW EQUIPMENT WILL BE REQUIRED IN THE NEXT YEAR (AND PARTICULARLY IN THE CRITICAL NEXT 3-6 MONTHS) TO ENABLE ARAMCO TO ACCOMPLISH ITS ASSIGNED OBJECTIVE OF GOING "ALL-OUT" TO UNDERMINE THE OPEC PRICE. THE BOARDS OF DIRECTORS OF THE ARAMCO PARENTS, HOWEVER, ARE INSISTENT UPON ARAMCO'S RIGID APPLICATION OF ALL ELEMENTS OF THE RIBICOFF AMENDMENT, LEST THEY IMPERIL THEIR FOREIGN TAX CREDITS. THIS MEANS THAT:

(1) ARAMCO CANNOT RELY EXCLUSIVELY ON ITS ESTABLISHED SUPPLIERS IN ACCOMPLISHING ITS URGENT EXPANSION. EVERYTHING MUST BE PUT OUT TO TENDER ON A BROAD SCALE, LEST THEY BE ACCUSED OF DISCRIMINATION AGAINST ANY POTENTIAL SUPPLIER FOR BOYCOTT-ASSOCIATED REASONS.

(2) BIDS MAY THEREFORE BE WON BY BOYCOTTED FIRMS, MEANING CERTAIN DELAYS AND PROBABLE LEGAL IMBROGLIOS. (IN AN EFFORT TO FORESTALL SUCH PROBLEMS, ARAMCO WILL
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INCLUDE IN ALL TENDER AGREEMENTS A NEW CLAUSE STATING THAT ANY SUPPLIERS UNABLE FOR ANY REASON TO DELIVER GOODS TO ARAMCO C.M.I.F. DAMMAM WILL BE RESPONSIBLE FOR REPATRIATION OF THE GOODS AT THEIR OWN EXPENSE AND RISK. THIS MAY DISCOURAGE LEGITIMATE BIDDERS WHO KNOW THEY ARE BOYCOTTED, BUT WILL NOT IMPEDE MISCHIEF-MAKERS, A PROSPECT WHICH IS CAUSING THE SAG SOME ANXIETY.)

2. PRINCE FADH HAS INSTRUCTED COMMERCE MINISTER, SULAYMAN AL-SULAYM, TO CONTACT THE HEADS OF CERTAIN OF THE LARGEST U.S. CORPORATIONS OPERATING IN SAUDI ARABIA, AND TO ENCOURAGE THEM TO PASS ON TO THEIR BOARDS OF DIRECTORS AN URGENT APPEAL FOR ACTIVE COOPERATION IN OPPOSING FURTHER ANTI-BOYCOTT LEGISLATION BY THE NEW US CONGRESS. IN MOST CASES, THE COMMERCE MINISTER HAS SUGGESTED THAT THE US COMPANIES STRESS TO THEIR MANAGERMENTS THE LIMITATIONS ON BUSINESS OPPORTUNITY IN SAUDI ARABIA THAT COULD RESULT IF MORE STRINGENT LEGISLATION IS PASSED. IN THE CASE OF ARAMCO, SULAYM WAS UNDER INSTRUCTION TO EMPHASIZE THE

TWO MORE SPECIFIC AND POLITICALLY SENSITIVE POINTS MENTIONED ABOVE, NAMELY THE CONCERN OF CROWN PRINCE FAHD THAT HE NOT BE PERSONALLY EMBARRASSED BY THE PASSAGE OF LEGISLATION CLEARLY DETRIMENTAL TO SAUDI-US RELATIONS, AND THE SAG'S ANXIETY THAT EXISTING AND PROSPECTIVE ANTI-BOYCOTT LEGISLATION NOT IMPEDE THE PRODUCTION EXPANSION PROGRAM ON WHICH DEPENDS MUCH OF SAUDI ARABIA'S CAPACITY TO IMPOSE ITS WILL ON THE REST OF OPEC. COMMERCE MINISTER SULAYM SPECIFICALLY ASKED THAT ARAMCO MEET URGENTLY WITH ITS PARENT MANAGERMENTS TO CONSIDER WAYS IN WHICH THESE CORPORATIONS MIGHT MOBILIZE THEIR POLITICAL RESOURCES TO ACIEIVE A POSTPONEMENT OF FURTHER ANTI-BOYCOTT LEGISLATION AT LEAST UNTIL TWO THINGS OCCUR.

A. SOME MOMENTUM IS ACHEIVED IN A MIDDLE EAST PEACE INITIATIVE--WHICH WILL TAKE THE HEAT OFF SAUDI ARABIA.

B. SAUDI OIL PRODUCTION CAN BE BUILT UP TO THE POINT WHERE ITS REAL LEVERAGE AMONG OPEC PRODUCERS MATCHES THE POLITICAL
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OBJECTIVES AND REQUIREMENTS IMPOSED ON SAUDI ARABIA AS A CONSEQUENCE OF ITS RESOLUTE STAND AT DOHA.

3. NO RESPONSE TO FOREGOING IS EXPECTED. I HAVE, HOWEVER, ACCESS TO SOURCE IF NECESSARY.
PORTER UNQTE ROBINSON

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